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Real Estate Economists, Appraisers and Counselors

LOCAL BUSINESS ACTIVITY INCREASES IN 1959

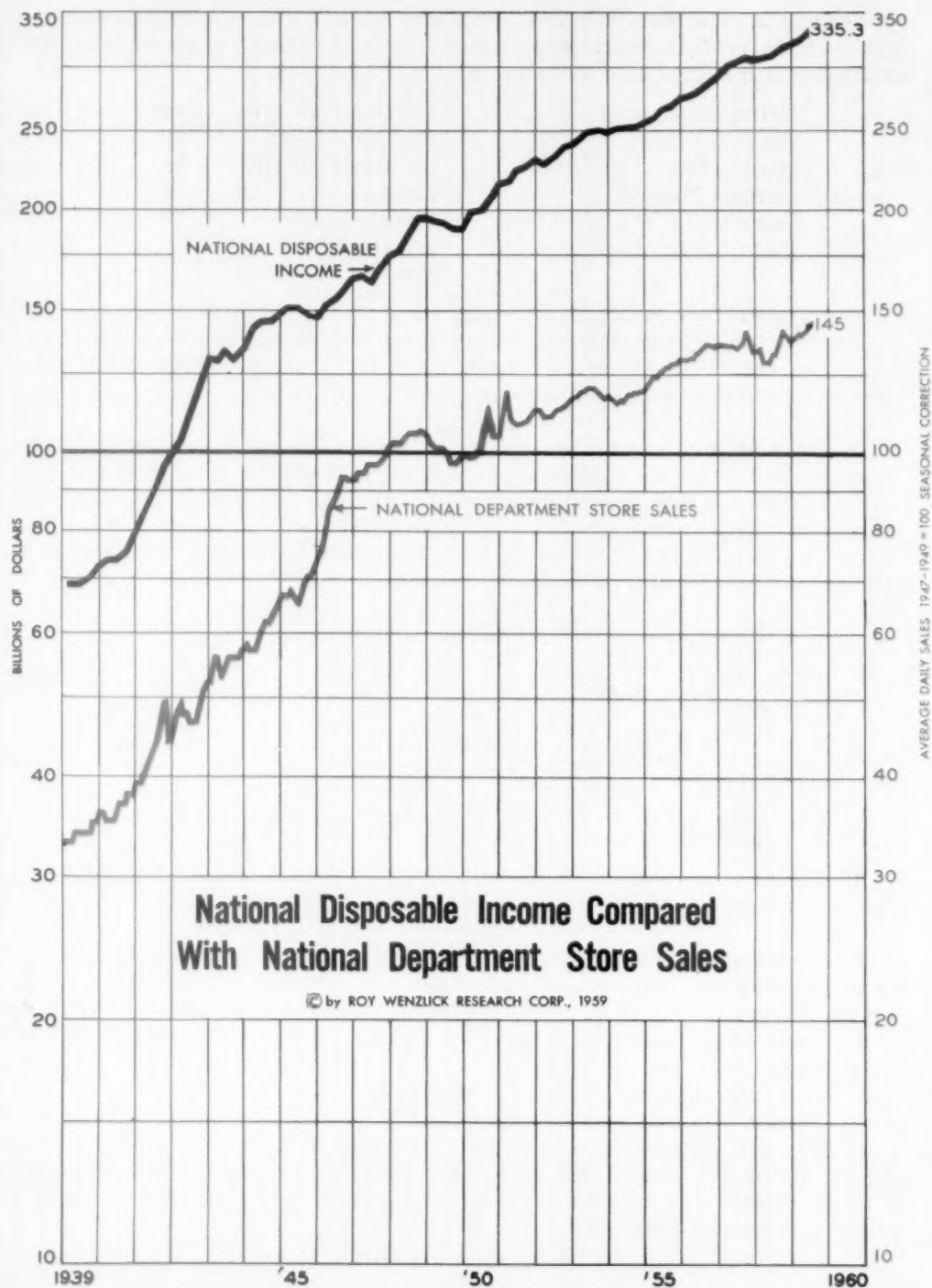
ONE of the few indexes available for measuring economic activity in local areas is that of department store sales. Those sales for all areas for the first 7 months of 1959 increased 8 percent over the corresponding period of 1958. This gain was made possible by an increase of 7 percent in national disposable income. A few metropolitan areas showed decreases over last year. Because some areas did not follow the national trend we need an index of activity for each city.

Why should department store sales be an indicator of local business activity? The close approximation of swings in national disposable income and national department store sales in the past has led economists to believe that they would be a good indicator of trends in local areas. However, the chart on the following page shows that there is a drift of national disposable income away from department store sales. This probably represents a change in the expenditure pattern of the general public. The consumer is spending more on durable goods and other goods not available in the department store, such as automobiles, gasoline, boats, longer vacations, higher education, and housing. While these changes in buying habits make department store sales a less reliable indicator of long-run trend of business activity in local communities, they are still the best barometers available of the economic prosperity of the communities in question.

The charts on pages 390 through 397 illustrate department store sales for 80 metropolitan areas in the United States. They are indexes based on the 1947-49 average sales equal to one hundred. Superimposed on each city chart is the national average in red for easy comparison. In the following ten cities department store sales decreased or showed the smallest gains over their average experience of 1947-49.

Metropolitan Area	% change 1947-49 to 1959
Boston, Mass.	-11
Oakland, Calif.	-7
Newark, N. J.	-5
New York, N. Y.	-3
Springfield, Ohio	0

Metropolitan Area	% change 1947-49 to 1959
Evansville, Ind.	+2
Worcester, Mass.	+2
Wilkes-Barre, Pa.	+5
Peoria, Ill.	+6
Buffalo, N. Y.	+6



Keeping in mind that the average increase for all cities this year is 45 percent over the 1947-49 experience, below is a list of the 11 cities showing the greatest gain in department store sales.

<u>Metropolitan Area</u>	<u>% gain</u>	<u>Metropolitan Area</u>	<u>% gain</u>
San Jose, Calif.	216	Houston, Texas	80
Miami, Fla.	182	San Diego, Calif.	79
Tampa, Fla.	146	Long Beach, Calif.	79
Sacramento, Calif.	118	Fresno, Calif.	78
Baton Rouge, La.	86	Atlanta, Ga.	71
		Youngstown, Ohio	71

These areas are growing in buying power through growth in industry and population. While these figures are corrected for seasonal fluctuations, they are not corrected for changes in population. This, naturally, means that the trend in rapidly growing cities advances faster than the trend of all cities.

Although almost every city showed an increase in department store sales for the first 7 months this year against last year, the downtown areas of the cities, where data are available, increased less than the metropolitan area, or decreased. This is shown in the following table of the percentage gain for the first 7 months this year over last year in 8 major metropolitan areas compared with the gain or loss of their downtown core:

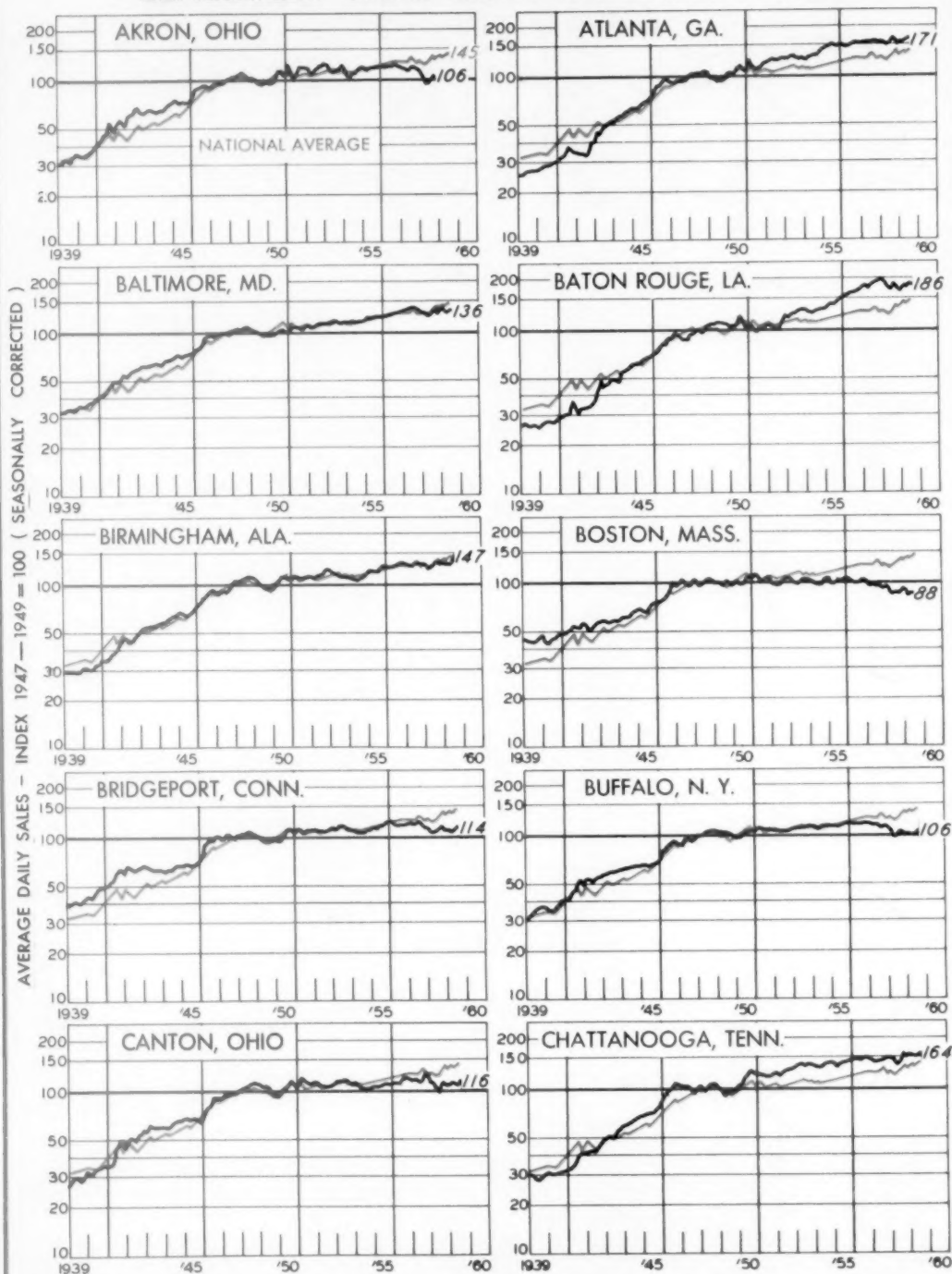
<u>Metropolitan Area</u>	<u>Downtown</u>	<u>vs.</u>	<u>Total Metropolitan Area</u>
Baltimore, Md.	-3%		+5%
Boston, Mass.	-2		+5
Cleveland, Ohio	+4		+9
Kansas City, Mo.	-1		+10
Los Angeles, Calif.	+4		+13
Miami, Fla.	+5		+8
Pittsburgh, Pa.	+7		+8
Washington, D. C.	+3		+9

This is further evidence of the need for rejuvenation of the downtown centers of our major metropolitan areas.

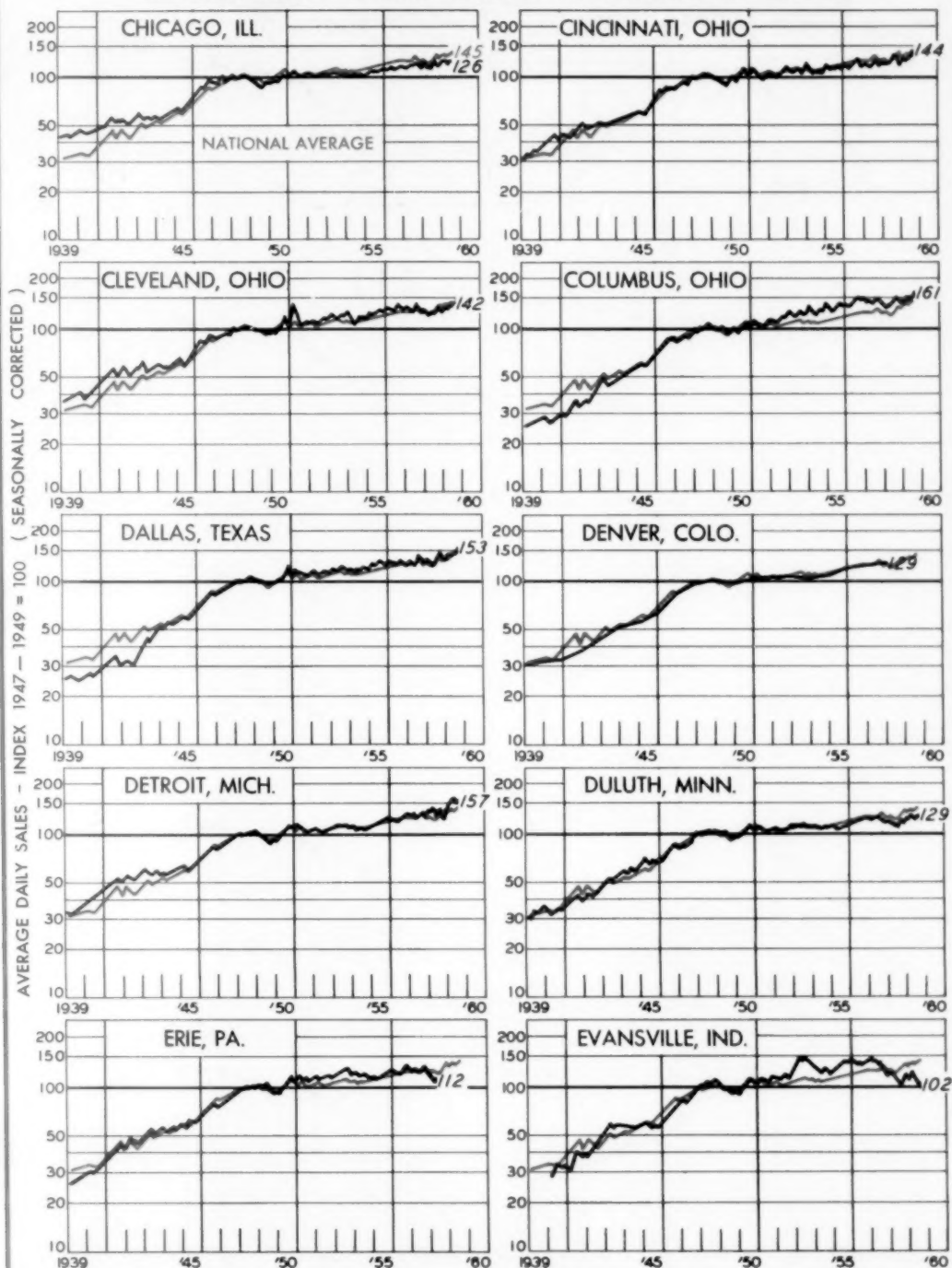
One of the interesting aspects of the real estate cycle is its relationship to the business cycle. The real estate cycle has long swings. There are periods of 8 to 12 years from peak to trough and from trough to peak. Business cycles, on the other hand, have shorter swings so that there are several business cycles within one real estate cycle. In the interpretation of the department store sales indexes, for each city, the fact that business is good does not necessarily portend that real estate business will be good. In the table on page 398 those cities for which we have both real estate and department store sales data are ranked by the size of the department store sales index. This ranking, compared with that of the index of real estate transfers by city, shows how little relation there is between the two.

(cont. on page 402)

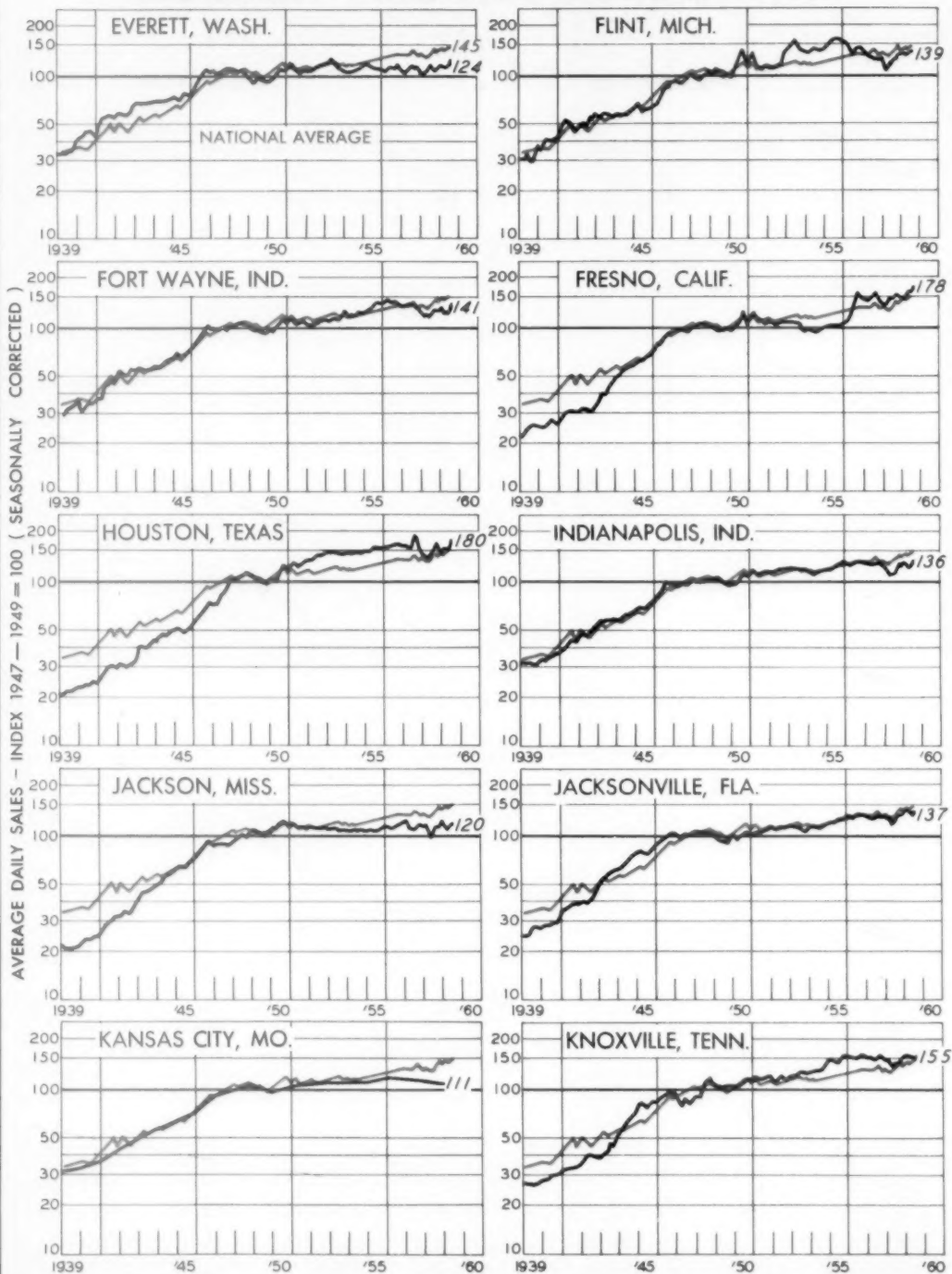
DEPARTMENT STORE SALES IN PRINCIPAL CITIES



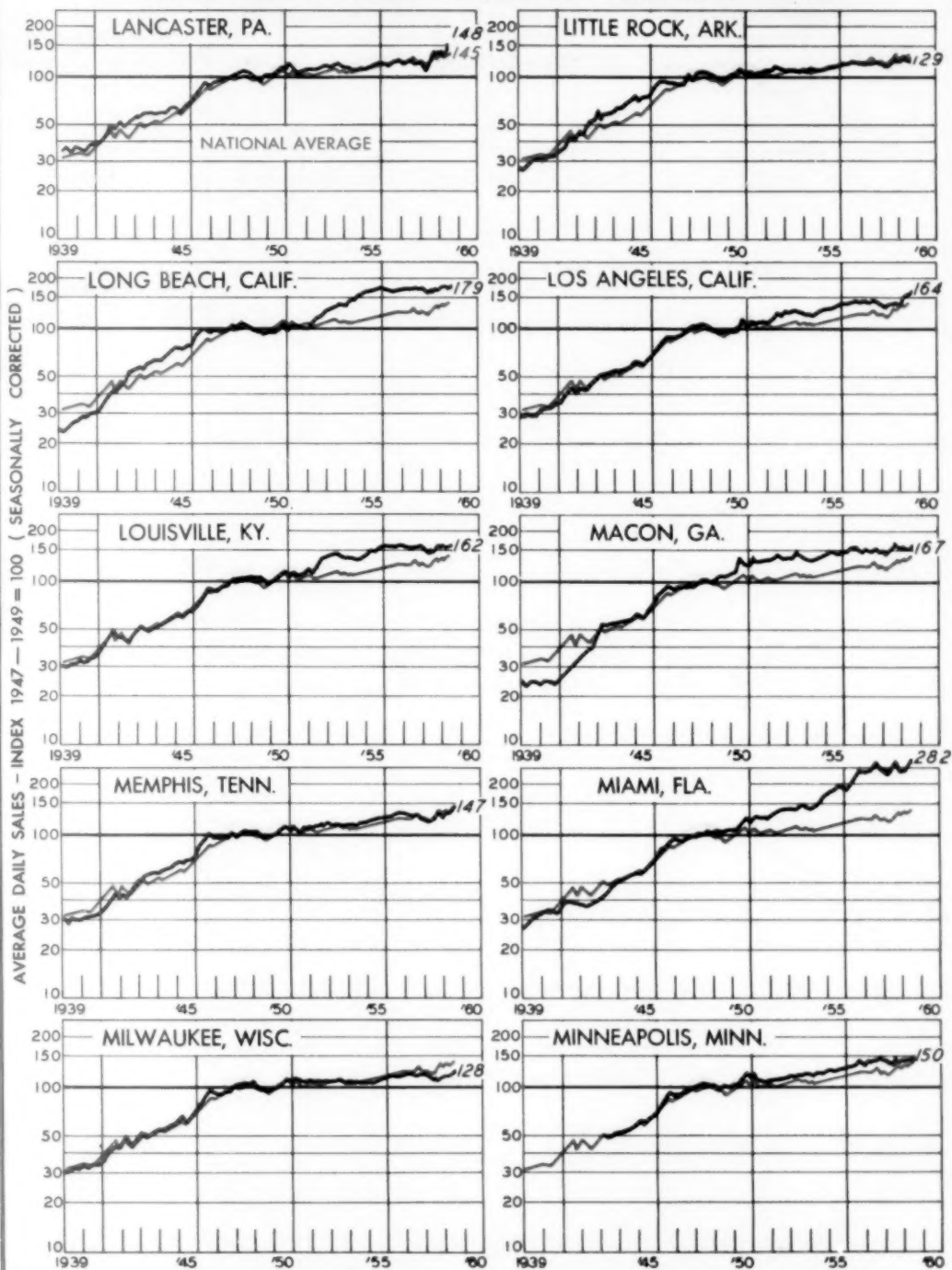
DEPARTMENT STORE SALES IN PRINCIPAL CITIES



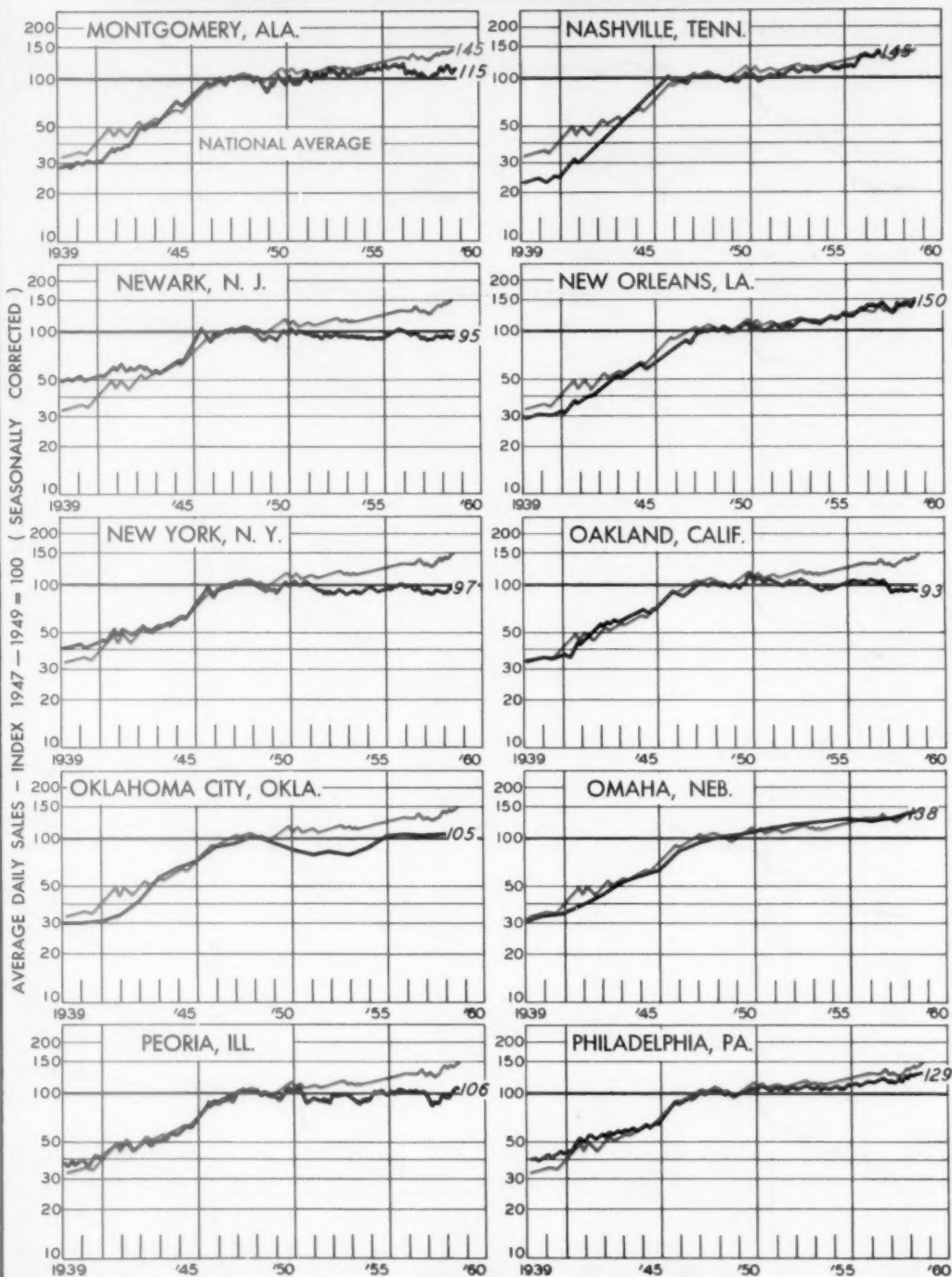
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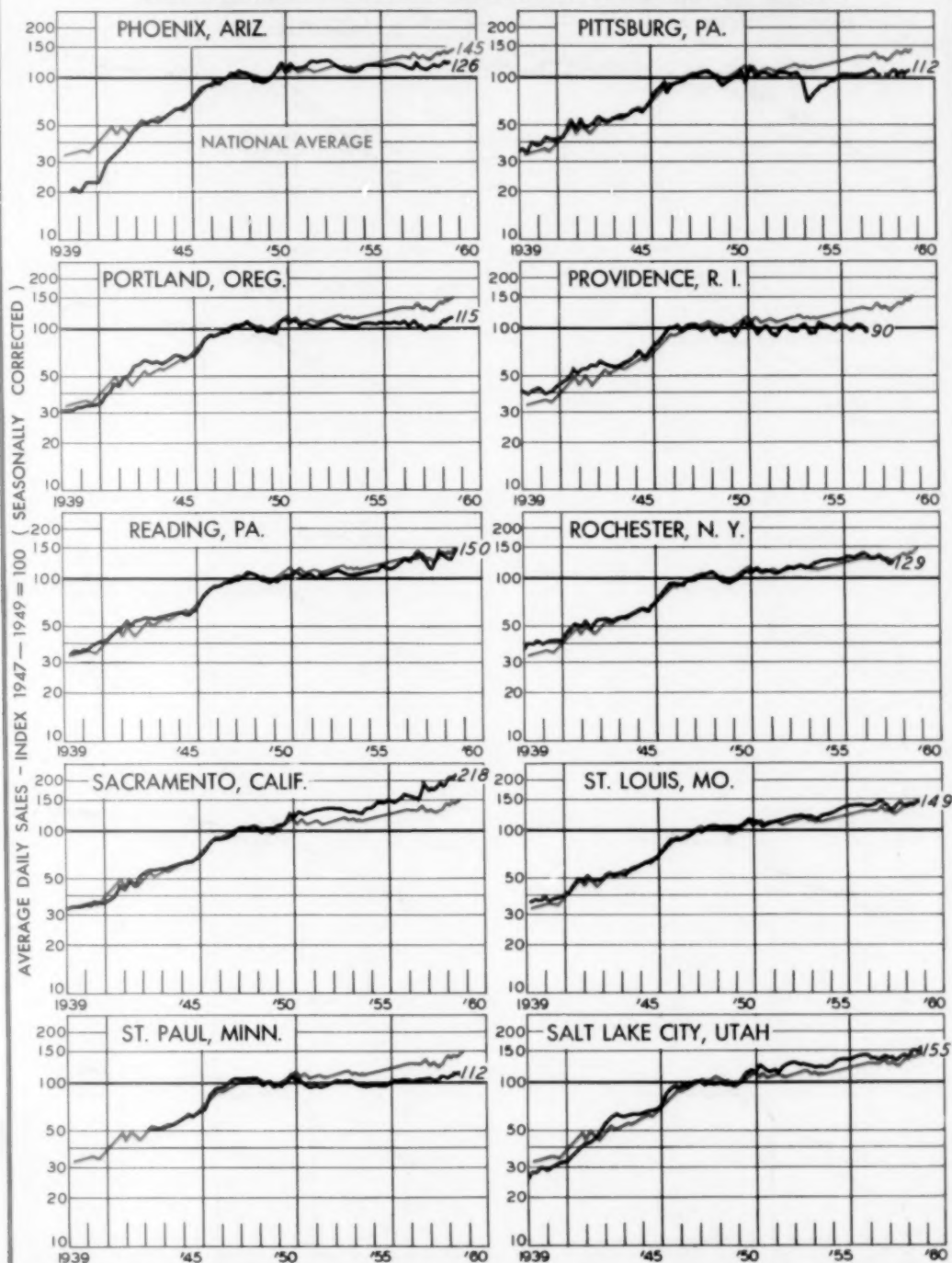
DEPARTMENT STORE SALES IN PRINCIPAL CITIES



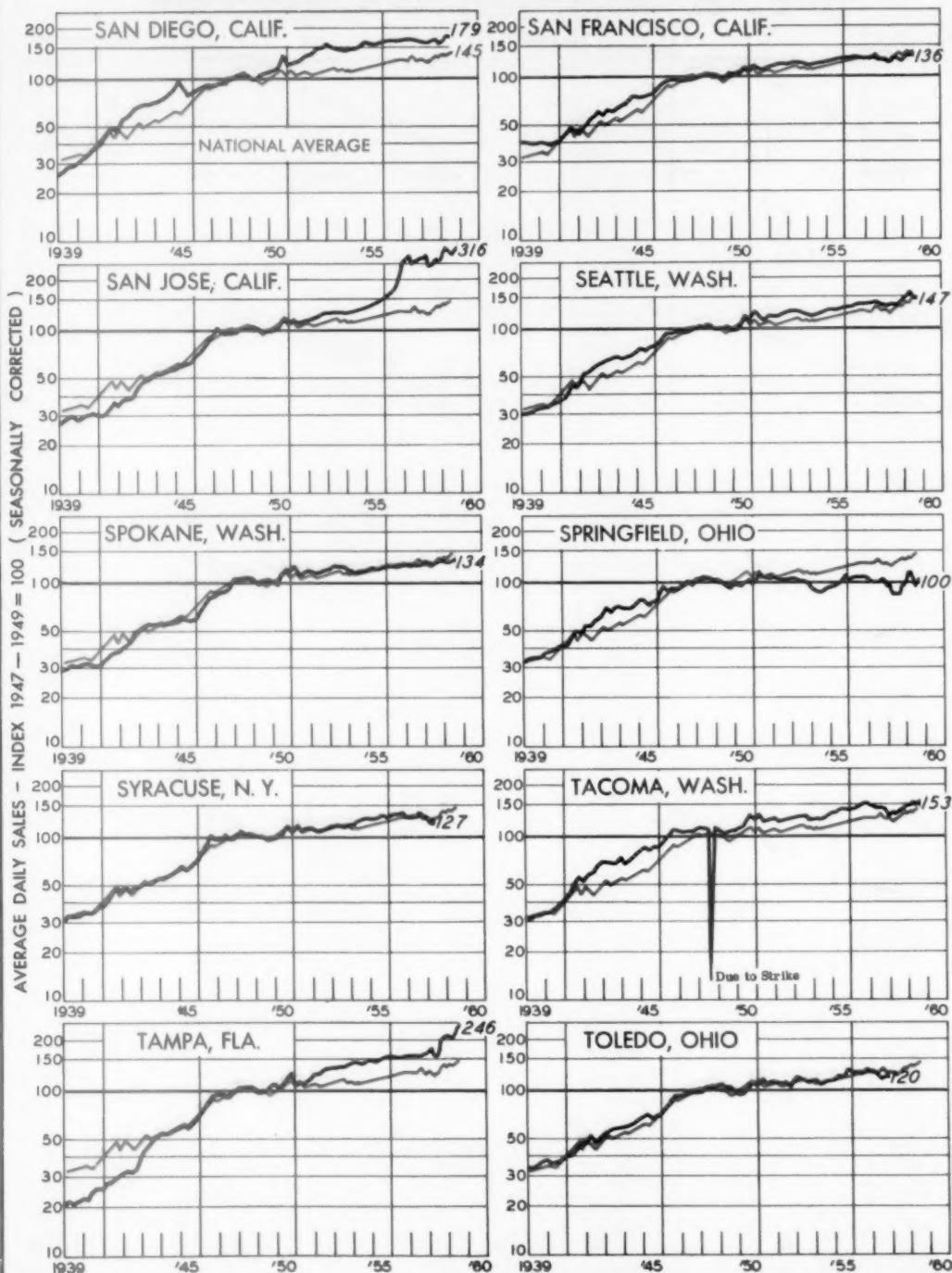
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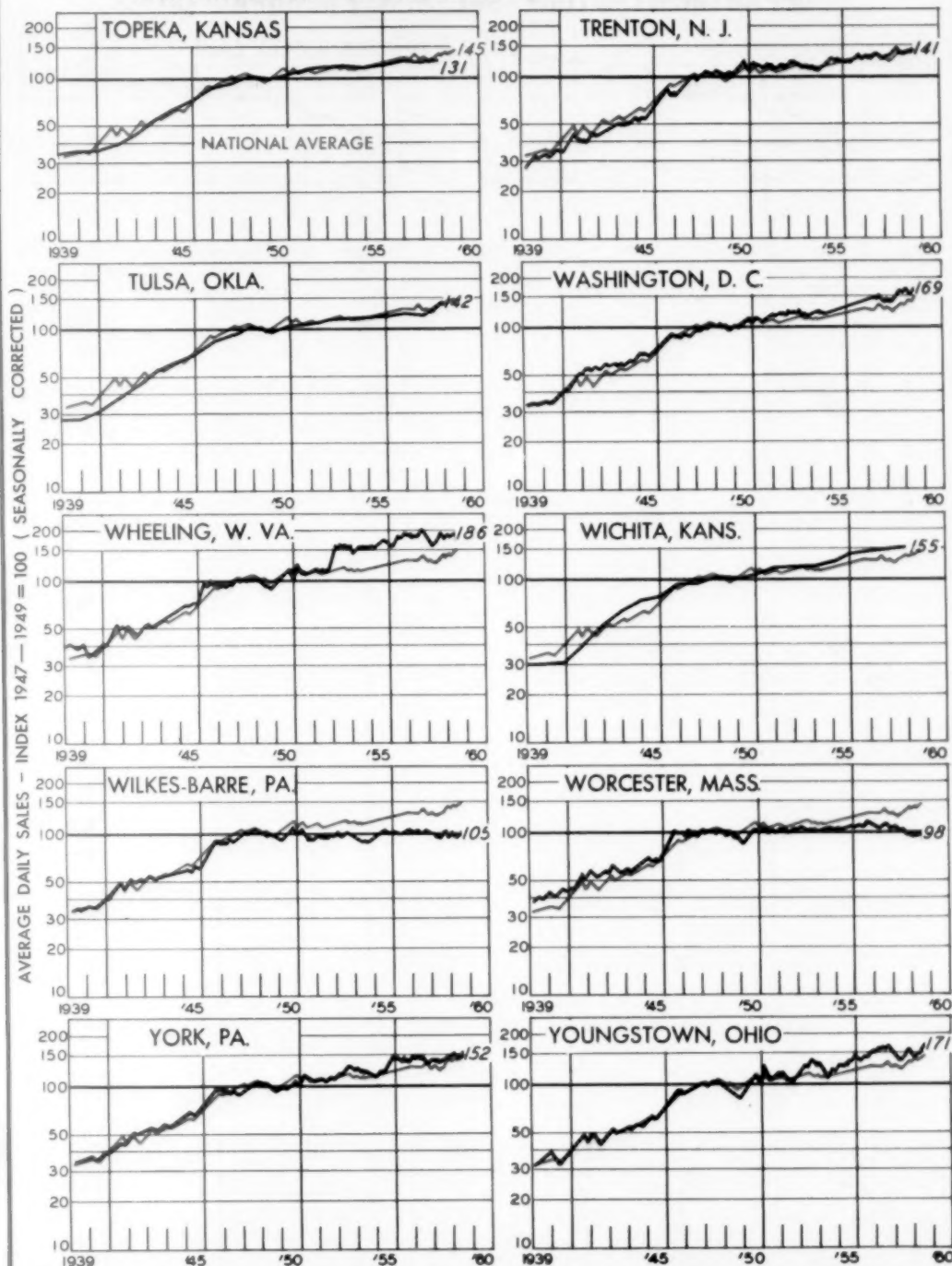
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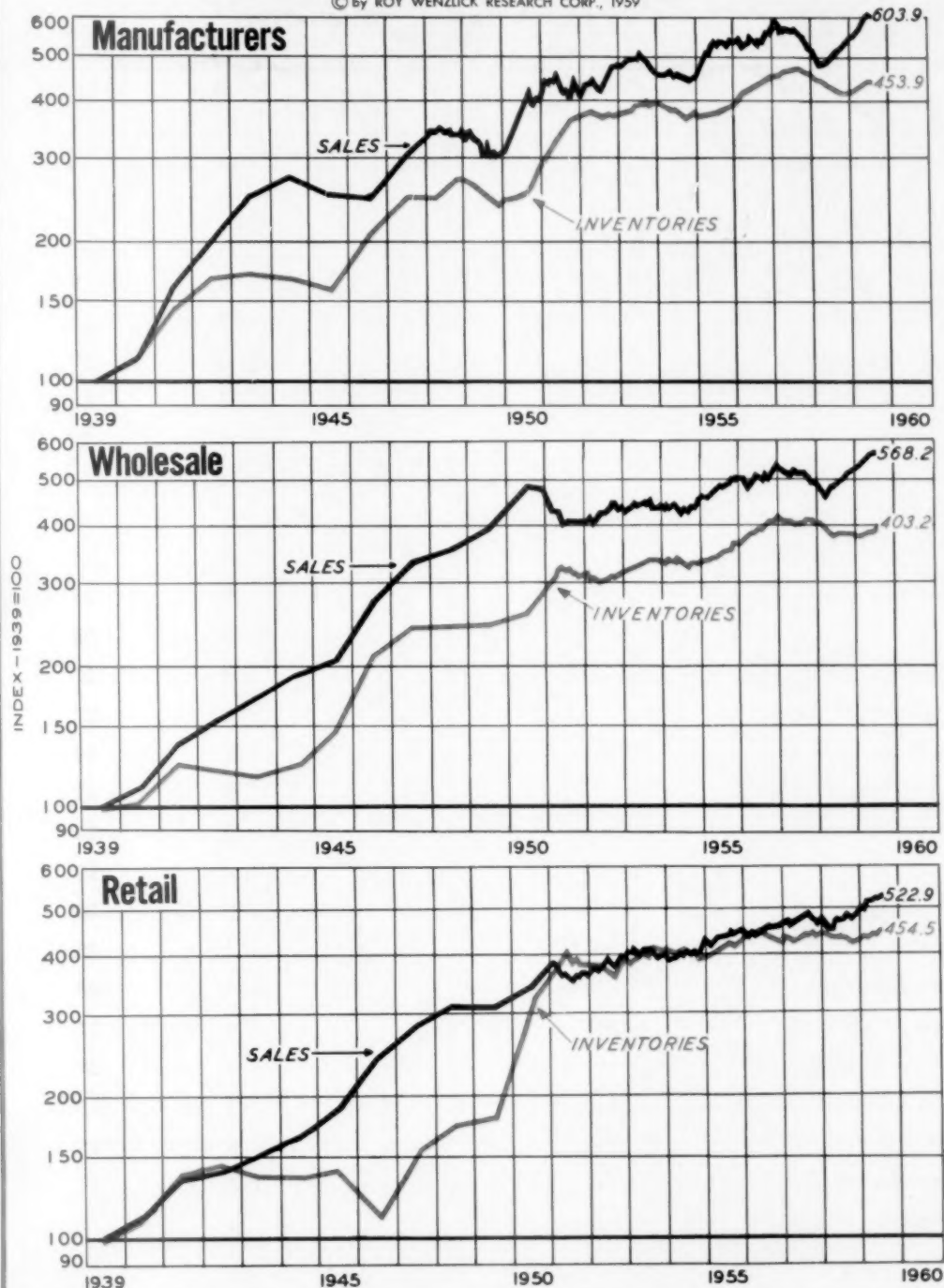
**COMPARISON BETWEEN BUSINESS ACTIVITY AND
REAL ESTATE ACTIVITY - JULY 1959**
(1947-49 = 100, Seasonally Adjusted)

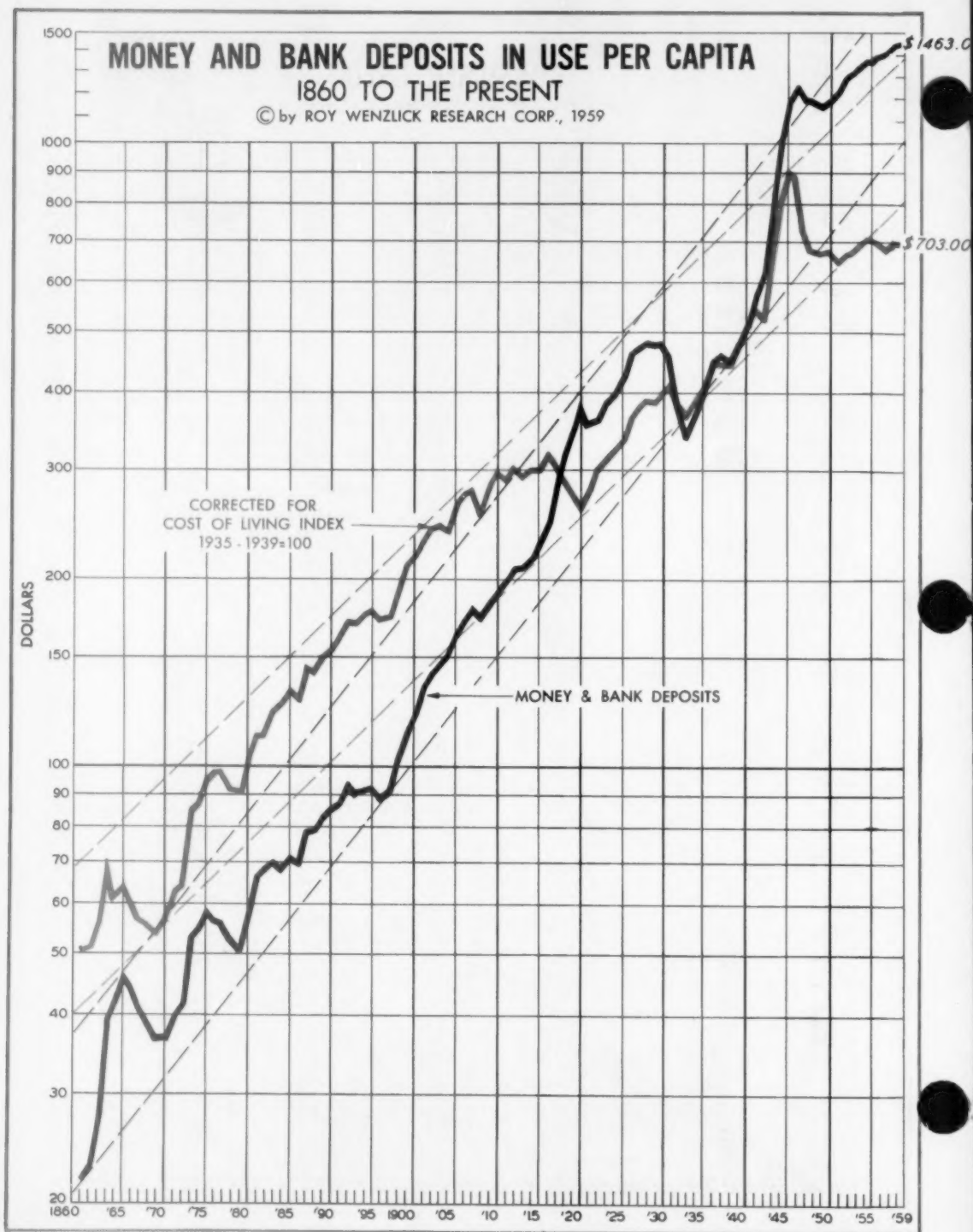
Selected City	Department Store		Real Estate Transfers	
	Sales Index	Rank	Index	Rank
Boston, Mass.	88	1	90	4.5
Worcester, Mass.	98	2	99	7
Springfield, Ohio	100	3	101	9
Evansville, Ind.	102	4	86	2
Buffalo, N. Y.	106	5	101	9
Pittsburgh, Pa.	112	6.5	87	3
St. Paul, Minn.	112	6.5	118	17
Bridgeport, Conn.	114	8	114	13
Chicago, Ill.	126	9	124	20
Milwaukee, Wis.	128	10	101	9
Duluth, Minn.	129	11.5	91	6
Philadelphia, Pa.	129	11.5	90	4
San Francisco, Calif.	136	13	138	25
Flint, Mich.	139	14	129	23.5
Cleveland, Ohio	142	15	108	12
Cincinnati, Ohio	144	16	128	22
Birmingham, Ala.	147	18	157	29
Memphis, Tenn.	147	18	125	21
Seattle, Wash.	147	18	115	14
St. Louis, Mo.	149	20	122	19
Minneapolis, Minn.	150	21	154	28
Dallas, Texas	153	22	129	23.5
Salt Lake City, Utah	155	23	145*	26
Detroit, Mich.	157	24	104	11
Louisville, Ky.	162	25	149	27
Los Angeles, Calif.	164	26	116	15.5
Atlanta, Ga.	171	27.5	116	15.5
Youngstown, Ohio	171	27.5	119	17
Houston, Texas	180	29	37	1

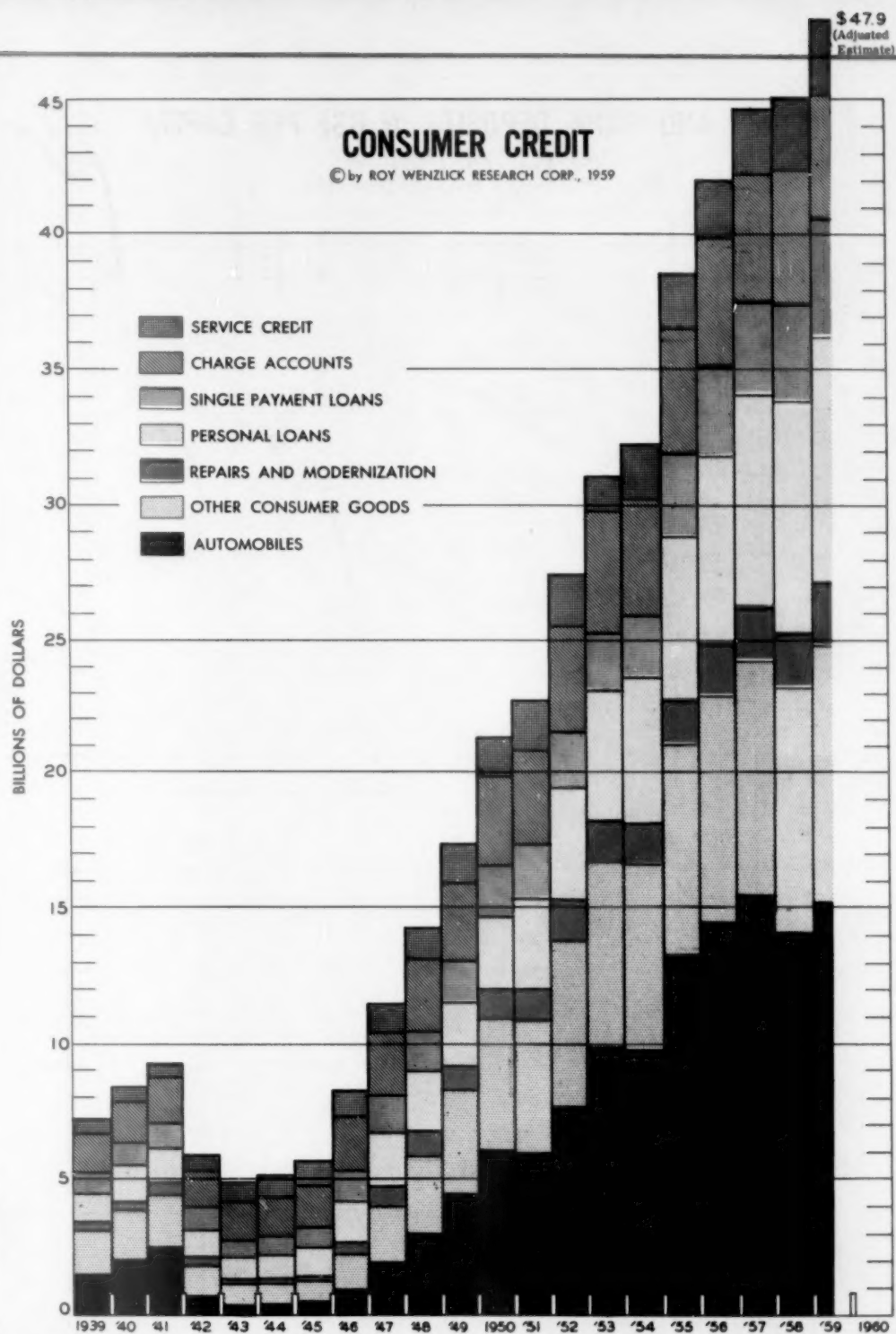
*June 1959.

INVENTORIES AND SALES

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(cont. from page 389)

Although this table shows that there is little relationship between the level of business activity and real estate activity, many of the same forces at work in increasing sales also increase real estate activity -- increasing income and new household formations.

MONEY, CREDIT, AND INFLATION

AN urban economy requires more money and bank deposits than does a rural economy. Prior to the Civil War, many large farms and plantations were practically self-sufficient units, manufacturing the things they needed from local raw materials, and raising their own food. As a larger percentage of the population of the United States drifted to metropolitan areas, the division of labor became more pronounced, and in order to exchange the products which were produced, more money and credit was needed. Even farms today have changed until the average farmer must make a large amount of cash and credit purchases in comparison with those of 100 years ago. Tractors do not have colts, nor can a farmer feed his tractor oats. He must purchase his farm equipment and must purchase his oil and gas. He uses a large amount of electric current for which he must pay. He is gradually becoming a highly specialized producer who must depend upon exchange for his continued existence.

On page 390 is a chart showing the growth of currency in circulation and bank deposits since 1860. Consumer credit is charted on page 391. There has been a need for increased money and credit. However, when the growth of money and credit outruns the growth of real production of goods and services, inflation results. On the chart on page 390 notice the sharp divergence in the red line representing real money and bank deposits per capita and the blue line representing money and bank deposits per capita in current dollars. The year of this divergence is 1945. The war ended. The Federal Reserve continued to support Government bond prices. The result was inflation. Look at the table below and see the difference in growth of real gross national product and the growth of money and consumer credit. This does not even include mortgage and industrial credit.

Increase - 1945-58

Gross National Product	27%	Consumer credit outstanding, end of year	696%
		"Money" in use (currency plus bank deposits)	53%

While real production of goods and services has increased about 2 percent per year, consumer credit has increased about 53 percent per year and money and deposits has increased about 4 percent per year.

